

Governance Accountability Project, Phase II (GAP2)
Exit Strategy
Revised August 2012

Bosnia Governance Accountability Project, Phase II (GAP2)

Exit Strategy General Approach

The following provides a description of GAP2's general approach to developing and implementing the exit strategy. This general approach is followed by a detailed narrative and timeline which provides more detail about the exit strategy for each GAP2 activity.

Introduction

After eight years of implementation, the success of GAP and GAP2 will be measured not only by the number of citizen service centers (CSCs) installed, the multitude of infrastructure improvements made, or the number of laws passed. GAP2 will be considered successful if it ensures that municipalities can deliver better services to citizens consistently into the future and municipal associations are better able to effectively communicate with higher levels of government and advocate for reform.

From its inception, the GAP2 team realized the sustainability of its activities would be the key to ensuring a lasting legacy that carried on beyond the project's end. For this reason, every aspect of our approach has been imbued with the goal of building institutional and technical sustainability. By placing the RS and FBiH Associations of Cities and Municipalities at the center of our policy intervention efforts, we sought to systematically build their legitimacy and technical capacity to drive the policy reform debate. Both associations have shown significant progress and are beginning to prove they are able to take ownership of the reform process and communication with higher levels of government. The FBiH association now requires a lot less hand holding when participating in working groups, like the ongoing one dedicated to FBiH revenue allocations. It is able to articulate its requests and suggestions in a substantiated manner, backing its position with data and analysis that is being taken seriously by higher levels of government. In late 2011, the FBiH association also worked with minimal GAP2 support to organize a two-day policy planning session which resulted in a policy action plan. GAP2 was present at the event, but only provided highly targeted policy expertise.

At the local-level we worked hand-in-hand with municipal staff in all aspects of our work, fostering local ownership and accountability of the reforms carried out through their municipal action plans and capital improvement projects. To date, municipal cost share has exceeded expectations, demonstrating that municipalities understand the importance of reform efforts and are willing to make funds available to achieve them. In follow-up visits, GAP2 has found municipalities, especially CSCs, are utilizing and maintaining their project-procured property as they should be, instilling confidence that they will continue doing so after GAP2 ends.

As GAP2 begins to wind down in its final year, the project has analyzed its sustainability efforts—past, present, and future. This analysis led to the development of an exit strategy that outlines what activities are phasing out completely, which will carry on in some form under the leadership of select local entities, which local entities will assume the responsibility for which GAP2 activities/products, what responsibilities have been transitioned to-date, what responsibilities will be transitioned in the remaining months, and what potential hurdles/obstacles may impede future transfer of responsibilities and/or the overall sustainability of certain activities.

The following narrative describes our general assumptions, keys to successful activity and product transfer, the transfer process, and conclusion.

General Assumptions

The sustainability analysis is informed by the following assumptions:

- Some GAP2 activities will be phased out completely.
- The responsibility for some products and activities have already been transferred to recipient organizations.
- The transfer of some products and activities, including those related to treasury operations; program budgeting; and gender/youth related activities, is currently ongoing.
- Considering the variety and complexity of the project's activities and products, there is no single organization that is capable of carrying on GAP2's full range of activities and products in their entirety. The chance of sustainability will be enhanced by handing over responsibility of various activities and products to multiple recipient organizations.
- The sustainability of GAP2 products and activities transferred to the two entity Associations of Cities and Municipalities depends on their ability to continue to increase their capacity to absorb the products/activities and continue them in the future. Therefore, the involvement of the CDMA project in executing tasks related to the transfer of products to the associations and monitoring the maintenance of the products in the future (after GAP2 formally closes) is highly desirable. In some cases, the municipal associations will only serve as a repository for GAP2 materials, ensuring they are available to all BiH municipalities following project closeout.
- The nature of some products requires the involvement of potential recipient organizations and institutions (governmental and/or non-governmental) which GAP2 has never worked with before. This is particularly true for the project's urban permitting activities, where technical expertise in country is scarce. GAP2 has found that technical expertise in this field is concentrated within institutions like universities and urban planning institutes, making them highly eligible to assume responsibility for aspects of GAP2's work in this area. Since these organizations and institutions do not have any experience working with GAP2 (and vice versa), the transfer of products to them requires a specially designed approach. This approach includes (but is not limited to) their active participation in designing product(s), which fosters a sense of ownership and thus enhances the chances they will continue to utilize and improve on the activities and products.

Keys to Successful Activity and Product Transfer

GAP2 has found the following to be keys to the successful transfer of project activities and products to recipient institutions and organizations.

Select potential recipient organizations carefully. GAP2 partner municipalities and citizens across the country trust in the quality of the project's work. For GAP2 activities and products to remain trusted and relevant, it is critical that the organizations that assume responsibility for these activities be credible, capable, and professional. Every potential recipient institution and organization will be evaluated by these overarching criteria.

Focus on the details. GAP2 cannot assume the recipient organization understands how to assume responsibility for the activity or product. Therefore, every aspect of the process of product transfer and absorption must be carefully planned and articulated, down to the smallest detail, to avoid possible

confusion or oversights. Our experience to-date shows that the process of product transfer and absorption is much smoother if a counterpart fully understands exactly what needs to be done and how.

Implement a gradual transition. In order to transfer an activity or product, GAP2 must adequately prepare and train the counterpart, formally hand over the responsibility, provide ongoing assistance to the counterpart including on site coaching and mentoring, and properly time the phasing out of GAP2 assistance. This process takes time and must be implemented with frequent coordination with the counterpart.

Provide post-transition monitoring and assistance. Once transferred, the product is owned by the recipient. However, GAP2 will continue to monitor the use and development of the product and to assist the recipient upon demands, until GAP2 formally closes. This ensures proper product use and increases the recipient's capacity to manage it in the future.

Customize the transfer process for each recipient. A template approach to transference will fall short of capturing the complexity of all the GAP2 products and activities to be handed over by the end of the project. The transfer must therefore differ from recipient to a recipient, depending on the product subject to transfer and individual abilities of each recipient to participate in the process and absorb the product.

Modify the product or activity if necessary. There may be instances when a product or activity needs to be modified in order to better suit the needs and capabilities of the recipient organization. When this occurs, GAP2 will work in tandem with the new owner, thereby increasing the likelihood that the product will be used in the future. Carrying out this modification process with the organization also helps them understand how they can retool the product or activity as needed in the future, as needs and capacities change.

Involve third parties when appropriate. Third parties, most commonly other donor-funded projects, may be in a position to support recipient organizations technically, financially, and organizationally after GAP2 ends. Their involvement can and should assist in a smoother transition whenever possible. Third parties can facilitate the transfer process by leveraging resources not normally available to GAP2 and by increasing counterpart buy-in. This is particularly relevant for activities and products that will be assumed by the entity-level Associations of Cities and Municipalities, where the CDMA project provides ongoing capacity building to the Associations.

The Transfer Process

Based on our experience to date and considering the keys to success described above, GAP2 developed the following methodology for the transfer of products and activities:

Step 1: Identify and select eligible recipients(s) of particular product(s) or activity as well as a potential third party that may assist in the product transfer and continuation. This is the starting point, where input from a number of organizations (donors, NGOs, governmental bodies, professional associations, etc.) will be used to identify potential recipient organizations. After being identified, potential recipients will be interviewed to determine if they have the willingness and capability to absorb and continue the given product(s). The process includes identification of obstacles that may impede the product transfer from GAP2 to the recipient. The possibility of having a third party involved in the process as a facilitator will be explored as well. Upon completion of the process, prospective recipients will be selected, and a final list of potential recipients will be submitted to the JMC for approval.

Step 2: Develop and sign memorandum of understanding (MOU). The relationship between the recipient and GAP2 (including involvement of a third party, when applicable) will be formalized through

the signing of a memorandum of understanding. This document shall regulate all details of the product transfer at the technical level and establish the recipient's obligation to continue the product in the future.

Step 3: Execute the MOU. The relevant product or activity is transferred from GAP2 to the recipient as stipulated in the MOU. At the end of the process, the recipient becomes the owner of the product with all responsibilities and liabilities associated within.

Step 4: Monitor recipient's performance. GAP2 continues to monitor the use and development of the product and assists upon request by the recipient, intervening when necessary to ensure the sustainability of the product.

Conclusion

GAP2 developed this exit strategy to comprehensively capture and present its approach to institutionalizing its activities and products within the local environment. This strategy is a living document that will continue to be updated as GAP2 nears completion. For various reasons, GAP2 may determine a potential recipient organization is no longer capable of assuming responsibility for the given activity or product. Alternatively, a new potential recipient organization may become evident. As our assumptions change, we will update the strategy and provide it to the JMC.

We believe the measures outlined in this exit strategy represent the project's best effort to set recipient organizations on a path for success in regard to their oversight of transferred activities and products. However, this strategy cannot guarantee the future success of all transferred products. The local climate is unpredictable; organizational leadership changes, the economic climate is unstable, and political polarization continues. Eventual constitutional changes, resulting in an altered state structure with a different distribution of jurisdictions, may impact a specific product in terms of necessity/suitability, demand, or ownership. Despite all efforts, the possibility remains that some GAP2 activities and products will be in question after project closeout. However, we are confident many of the project's achievements, activities, and products will continue on, ensuring a lasting legacy for which all three donors will be proud.

Bosnia Governance Accountability Project, Phase II (GAP2)

Exit Strategy Detailed Narrative

The following detailed narrative describes how various GAP2 activities are phasing out or phasing over to local organizations, explains why certain organizations were selected to continue GAP2-related work in certain areas, and outlines how GAP2 plans to ensure the wealth of resources and materials developed by the project remain available to all BiH municipalities following project closeout. Additionally, the narrative describes GAP2's perception of the level of sustainability of certain activities and provides recommendations for where continued donor support may be required to ensure ongoing reform.

This detailed narrative is followed by a timeline table providing a week-by-week schedule for remaining work to be done in order to fully execute this exit strategy.

Local Interventions

As noted throughout this detailed strategy and particularly under local interventions, GAP2 has developed a wide range of practical tools and training materials that should remain available to partner and non-partner municipalities following project closeout. In most cases, GAP2 plans to provide these materials to the entity municipal associations, which will serve as a repository. To better enable the municipal associations to catalogue and make available these tools and materials, GAP2 will work with them to establish an organized online library of GAP2 materials within a section of the associations' websites.

Develop and implement municipal action plans (MAPs) in legacy and new municipalities

Overview. Under this activity, GAP2 staff worked directly with partner municipalities to identify reform priorities within their municipal administrations, develop action plans for addressing targeted priority areas, and support implementation of the reforms. A number of training materials were developed for this activity and cover not only the MAP methodology/process but also the specific reform areas that were addressed through a number of the action plans themselves.

While the MAP activities and trainings have already been phasing out as GAP2 comes to a close (and no local entity will take over these activities), GAP2 wants to ensure the training materials will remain available for partner and non-partner municipalities in the future. Partner municipalities may want to train new staff using these materials and/or non-partner municipalities may want to replicate the reforms of their neighboring municipality, and these training materials can support them in that effort. Therefore, GAP2 plans to transfer all MAP-related materials to the municipal associations, in addition to other local organizations as described below. The municipal associations will serve as a repository for these materials. In 2011, GAP2 transferred a database of local governance consultants over to the municipal associations, and these consultants are available and skilled at conducting the training in the various technical areas should the associations or individual municipalities wish to receive training/assistance. Furthermore, some organizations provide similar types of training, and the GAP2 materials can enhance or complement the materials they already use.

Below, we list the key training materials GAP2 will be transferring to local entities for continued use following GAP2's closure.

Training materials on MAP methodology and MAP Catalogue. Municipal action planning has been a central approach to GAP2's local interventions activities in both legacy and new partner municipalities,

so municipalities are now quite familiar with utilizing MAP methodology to capture citizen input and prioritize municipal reforms. GAP2 has even observed partner municipalities look to their MAP Catalogue for reform ideas outside of their collaboration with GAP2. As a result, GAP2 municipal coordinators feel confident that partner municipalities fully understand and have embraced the MAP methodology and will likely continue to utilize this methodology after GAP2 ends. To ensure non-partner municipalities have access to “The MAP Book: Municipal Action Plan Handbook for GAP Partner Municipalities” and the “Public Input Toolkit: Public Information and Citizen Participation Materials for the Municipal Action Plans”, GAP2 will provide these to the entity municipal associations to keep as resources for municipalities that want access to them. GAP2 will also provide the associations with the MAP Catalogue. Although the catalogue was developed to provide core and demand-driven assistance to GAP2 partner municipalities (the latter based on the actual needs of municipalities), it can serve as a useful tool for non-partner municipalities that want easily accessible ideas for reform, as it identifies close to 40 different areas/services for improvements.

Training materials on MAP methodology, The MAP Book, the Public Input Toolkit, and the MAP Catalogue have already been provided to MAP working groups within GAP2 partner municipalities as well as to other departments within municipal administrations.

In the remaining months of the project, GAP2 will more fully integrate regular monitoring and evaluation mechanism functions into MAP working groups and MAP processes and will continually stress the importance of buy-in from the mayor, which has been highlighted as a key to success.

GAP2 will also conduct training sessions on MAP that will be presented to GAP2 partner and non-partner municipalities during the two regional closeout conferences in late September. All necessary hand-outs and relevant MAP documents will be available for conference attendees. This session will provide participants from all BiH municipalities an opportunity to hear more about the MAP process and why it is important.

Training materials on departmental reorganization aimed at improving internal municipal management, municipal development (including urban planning), and service delivery. Human resources officers within GAP2 partner municipalities already have these training materials. However, we also plan to provide them to each entity municipal association to maintain as a resource for partner and non-partner municipalities.

Training materials on development of strategic plans to attract investments. The “Departments for Development” within GAP2 partner municipalities already have these materials. As with many of the other training materials, we will provide these to each entity municipal association so they will be available as a resource for partner and non-partner municipalities. As local and regional development agencies (such as RSDA, SERDA, NERDA, REDAH, BSC etc.) also play a critical role in strategic planning at the local and regional levels, GAP2 will provide these materials to them to incorporate into their existing training and tools.

Training materials on development of Local Environmental Action Plan (LEAP). Bosnian municipalities have a legal obligation to adopt LEAPs, and LEAPs are also a significant factor in applying for IPA funds. Many local development agencies (LDAs) have the responsibility of supporting municipalities in the LEAP process, so GAP2 will be providing its LEAP training materials to relevant LDAs. GAP2 will also provide its LEAP materials to entity and cantonal ministries of environmental protection so they understand how GAP2 partner municipalities were trained to do LEAPs to facilitate efforts to standardize LEAPs across all levels of government.

Additionally, the UNDP is expected to take on LEAP training for all the remaining BiH municipalities not covered under GAP2. In September 2012, GAP2 will share the information about its LEAP activities, including a list of GAP2 municipalities where LEAPs were developed, with UNDP to facilitate this process.

GAP2 will present its achievements related to LEAPs including a summary of the approach and benefits of LEAPs during the final round of regional workshops.

Sub-Component A: Improve service delivery in legacy and new municipalities (KRA 1.1)

Activity A.1: Enhance performance of municipal citizens' services centers (CSCs) and urban permitting centers (UPCs)

Overview. Under this activity, GAP2 staff worked directly with partner municipalities to establish CSCs and support ongoing improvements to citizens' services provision and CSC/UPC functioning, including SMS notifications, document scanning, and digitalization. The team also helped larger partner municipalities to establish satellite network offices to serve their more rural populations (e.g. Mostar, Teslić, Banja Luka, Bihać).

Although these activities will be phased out completed when the project comes to an end, there is an opportunity for a local entity to continue to monitor the performance of all BiH municipalities in relation to the ongoing usage of software provided by GAP2 and efficiency of their municipal service provision. GAP2 utilized DocuNova software to regularly measure the average processing time for various municipal services in its partner municipalities and to monitor the software's usage, and the final series of these "performance audits" will be conducted in July/August 2012.

In addition to materials on establishing CSCs, GAP2 plans to provide the municipal associations with information on this performance audit process. Ideally, the associations will form working groups/committees focused on service provision improvement that can continue to conduct routine or ad hoc performance audits as GAP2 did.

Ongoing performance audits of municipal services provision. As described in the overview for Activity A.1, GAP2 plans to share information on its performance audit methodology with the municipal associations, in the hopes that they will each create a sub-committee/working group overseeing ongoing service provision improvement. This committee could then utilize the GAP2 methodology to conduct ad hoc or routine performance audits to measure the average processing time for various services in all or a sub-set of BiH municipalities. This methodology will also be available to individual municipalities through the association, so that municipalities themselves can conduct an audit to determine whether their efficiency has improved or not compared with prior periods. The municipality could then use this information to determine whether there are trends in inefficiencies they need to address in a certain service delivery area.

There are also a number of GAP2-developed training and implementation materials outlining processes related to improving municipal service provision that were utilized under Activity A.2. GAP2 will transfer these materials to the municipal associations so that they may serve as a repository should GAP2 partner or non-partner municipalities wish to access these materials once GAP2 ends.

Activity A.2: Improve municipal management of communal services in select municipalities

Overview. Under this activity, GAP2 worked with nine pilot municipalities—Bosanska Krupa, Cazin, Mrkonjić Grad, Šipovo, Livno, Prozor Rama, Nevesinje, Foča, and Travnik—to improve their municipal management of communal services. GAP2 assistance in this area began in mid 2011 and continued through 2012, so there has been little opportunity to gauge the full extent of the sustainability of these activities in the pilot municipalities. However, many of the activities provided tools pilot and non-pilot municipalities can continue to utilize after GAP2 ends. These tools include but are not limited to, a Catalogue of Communal and Non Administrative Services, communal service standards, tariff models for pricing of communal services, and service promotions such as “Services 48 Hours”.

GAP2 also introduced internal improvements, such as revising and amending municipal internal regulations (e.g., rulebooks on complaints), internal communication strategies (in Livno), communal infrastructure digitalization plans (in Bosanska Krupa, Mrkonjić Grad, and Šipovo), winter season road maintenance plans (in Nevesinje), as well as helping create permanent municipal bodies responsible for further improvements of communal services (e.g., Team for Communal Services Development in 7 pilot municipalities). This assistance in particular, institutionalized GAP2’s reform efforts in the pilot municipalities.

As GAP2 winds down, it is phasing out its assistance in this activity. To ensure pilot municipalities have the materials for the trainings they received, GAP2 will be providing them with soft and hard copies of all the presentations/training materials. GAP2 will also provide these materials to the municipal associations. The municipal associations will serve as a repository for these materials should pilot and non-pilot municipalities wish to access them after GAP2 ends.

Transfer of relevant training material to pilot municipalities and municipal associations. As explained above, GAP2 will provide all the training materials developed for this activity to the pilot municipalities as well as to the municipal associations who will serve as a repository. Until the project ends, GAP2 will continue to monitor the implementation and usage of the various tools in the pilot municipalities.

Furthermore, during GAP2’s two regional closeout conferences in September, both partner and non-partner municipalities will be informed about improvements/streamlining of municipal management of communal services made in GAP2 pilot municipalities and will hear about best practices directly from pilot municipality representatives. This conference session will not only provide interested parties with an opportunity to learn more, ask questions, and receive materials about improvements to municipal management of communal services; it will also provide a venue for networking between municipalities and will hopefully encourage peer to peer assistance.

Sub-Component B: Improve administration, budgeting, and financial management in legacy and new municipalities (KRA 1.2)

Activity B.1: Maximize functionality and use of Integrated Accounting and Budgeting Software (IABS)

Overview. As noted in the 2011 annual report, the use of IABS has show continuous progress, and several municipalities, including Tuzla, Cazin, Bužim, and Livno, have expanded the budget and finance software application (IABS) to external users of the municipal budget. Both of these indicate to GAP2 that the users understand how to use the software and appreciate its importance, key factors in ensuring its sustainability. In the FBiH, IABS is also being utilized for the mandatory introduction of treasury operations, further fostering the software’s sustainability. The finance staff (municipal administration and budget users) are able to generate reports within a short period of time, thus giving them more time to

focus on analyses, forecasting, planning, and implementation of improved activities for transparent and participatory (of citizens) information dissemination.

The extension of the system is funded by the municipalities, and they have signed contracts with the software provider Itineris of Tuzla. Itineris has also established a help-desk for its municipal users, so they will have IABS support following GAP2's closure. Municipalities will continue to pay maintenance fees to Itineris for this and other services.

Ongoing role of associations in IABS. Given the large number of municipalities that use IABS, it will be important for the municipal associations to serve as a focal point through which municipalities can address issues with IABS software and demand updates and customization in an organized and systemic manner in accordance with new laws and regulations. The associations should protect the interests of municipalities before higher levels of government in situations when changes to systemic legislation require the purchase or update of computer software. The associations should insist on the use of updated IABS whenever possible, instead of recommending the purchasing of new software which imposes unnecessary costs on municipalities.

Activity B.2: Prepare select municipalities for introduction of treasury operations

Overview. The introduction of treasury operations within FBiH municipalities is a legal requirement which therefore ensures the sustainability of GAP2 assistance in this area to its 10 pilot municipalities. Given all FBiH municipalities will need to introduce treasury operations, this type of assistance will need to be scaled up to those FBiH municipalities not included in the GAP2 pilot effort. Given the legal requirement, other non-pilot municipalities have shown an interest in replicating GAP2's treasury introduction activities. For example, the municipality of Velika Kladuša has been attending GAP2 workshops and showed great interest and enthusiasm in applying the know-how of GAP2's pilot municipalities in the region.

Unfortunately, the FBiH Ministry of Finance has shown little interest in supporting municipalities to introduce treasury operations, even though it should be their responsibility. Instead, the FBiH municipal association, with support from CDMA, has offered to provide this support to municipalities. Thus, GAP2 will be phasing over its work in this activity area to the municipal associations/CDMA. As noted below, GAP2 has transferred all its rulebooks and training materials to the municipal associations. CDMA has also created a help-desk that municipalities can call that provides support in the treasury introduction process. These two sustainability approaches are described in more detail below.

Rulebooks/training materials on the introduction of Treasury operations. As noted in the overview, during the course of implementing this activity, GAP2 developed framework documentation / guidelines for introduction of treasury and other training materials (some tailored specifically to the situation in each of its 10 pilot municipalities) that provide municipalities with tools and skills to introduce treasury operations. GAP2 has already formally handed these materials over to the FBiH municipal association that will now provide this support to non-partner municipalities. In the period before GAP2 ends, the project will continue to monitor the support the association is providing and will assist the association as needed.

The FBiH municipal association and GAP2 are also organizing 4 regional treasury workshops in September to further assist all FBiH municipalities (including non-partner municipalities) in their efforts to introduce treasury operations (the GAP2 regional closeout conferences will not cover this topic, as longer time is need for these specific trainings). GAP2 succeeded in its effort to have the association fully involved in this activity, ensuring the association has a sense of ownership and further enabling them to carry out this sort of activity after GAP2 ends.

Treasury operations help-desk for municipalities. As noted in the overview, CDMA has helped the municipalities establish a permanent help-desk (a financial consultation available through the association’s website) that will be available to answer questions and provide other support to FBiH municipalities as they introduce Treasury operations. The establishment of this help-desk represents an effort to institutionalize the necessary support within the municipal association, thus fostering its sustainability after both GAP2 and CDMA end.

Activity B.3: Improve budgetary information for municipalities

Overview. Together with the OSCE Mission to BiH and both municipal associations, GAP (Phase I) developed a comprehensive 15 chapter Budget and Financial Management Guide that was distributed to each municipality in BiH. The main purpose of this guide is to serve as a reference guide for municipal budget and finance experts. Since its original development, GAP2 helped to update it twice, initially adding new chapters on budget legislation and budget planning, control, reporting, and accounting. In late 2011, GAP2 signed an MOU with both municipal associations to formalize the handover of the Budget and Finance Guide for Municipalities in BiH. As part of the handover agreement, updates to the guide are now the responsibility of the respective association. Thus, this activity has been phased over to the municipal associations. More detail is provided below.

Budget and Finance Guide for Municipalities in BiH. Municipal associations periodically monitor use of the guide, and through municipal surveys, work on identification of specific needs for amendments and/or additional chapters. As a result of a joint effort between GAP2 and both municipal associations in 2009, new chapters on treasury and program budgeting were added and were widely distributed among BiH municipalities. A similar survey is planned for late 2012. As noted above, the guide has already been formally transferred to both municipal associations.

Activity B.4: Transfer ownership of municipal revenue profile production and maintenance

Overview. As part of GAP2’s overall efforts to improve municipal capacities to collect and manage all available non-tax revenues in 2008, GAP2 started an annual production and distribution of municipal revenue profiles. These profiles are based on municipal historical budget execution reports and provide appropriate information on municipal historical data on revenue collections, enabling comparison of data between similar municipalities. Municipal profiles have been serving as a snapshot of current state of municipal own-revenue collections and have assisted municipal finance management in opening many delicate questions, initiating appropriate further analysis, and addressing certain irregularities. In late 2011, GAP2 signed an MOU with both municipal associations to formalize the handover of the municipal revenue profiles. As part of the handover agreement, updates to the guide are now the responsibility of the respective association. Thus, this activity has been phased over to the municipal associations. More detail is provided below.

Municipal revenue profiles. After a series of training sessions for the RS and FBiH municipal association staff, an MOU was signed in late 2011 with both municipal associations, and the municipal revenue profiles were physically handed over. After several meetings with the management of each municipal association and after conducting surveys with participating municipalities, all are in agreement that if updated regularly, revenue profiles are a very important tool that will not only assist associations in analyzing and comparing municipal revenue collections but will continue providing their respective municipalities with very important and useful graphically presented data. Such data easily enables municipalities to define necessary corrective actions. Selected staff from both municipal associations have been individually trained in data collection, production of revenue profiles, and maintenance of the

database. In 2012, GAP2 has been and will continue to advise the association as needed on how to maintain this tool. Both associations have started collections of municipal budget execution reports, and the FBiH association has even added expenditure data to the existing databases transferred from GAP2.

Activity B.5: Support advanced program budgeting and public expenditure management

Overview. Unlike work on Treasury activities, there is no law or regulation that requires municipalities to utilize program budgeting. The extra work related to introduction of this complex yet rewarding way of budgeting is often a huge burden for the municipal staff. The 14 municipalities which agreed to work with GAP2 on program budgeting have invested significant time and effort on a voluntary basis. They and other municipalities would be more incentivized to work on program budgeting in the future, without GAP2 support, if they had a legal requirement to do it.

As described below, GAP2 has developed a number of training materials over the course of implementation for this activity. As GAP2 winds down, it will conduct program budgeting close-out meetings with the participating municipalities. During these meetings, GAP2 will provide them with the comprehensive training materials to ensure they have job aids and tools to support them to maintain the program budgeting elements they began.

GAP2 does not believe the municipal associations are capable to support municipalities in any way with program budgeting. Therefore, this activity will be phased out, and the materials will not be provided to the associations.

Training modules (materials, presentations, examples). As noted in the overview, during the course of implementation of this activity, GAP2 has developed a series of trainings on the introduction of program budgeting at the local level and on expenditure management. These training materials, as well as draft program budgets for selected municipal sectors, will be provided again to the participating municipalities so they can use them as a reference/job aid should they continue to utilize a program budgeting approach for some of their budgeting sectors.

Before closeout, GAP2 will also assist municipalities in making graphical reports on municipal expenditure execution (in selected municipalities) publicly available for a wider municipal audience. This will allow citizens and decision makers to easily view information that is usually quite complex and difficult to understand in a more easily understood, transparent, and graphic way.

The GAP2 regional closeout conferences, to be held in September, will also feature sessions on program budgeting. During the sessions, pilot municipalities will share their experiences with finance staff from partner and non-partner municipalities, and presentations and training material on program budgeting will be distributed on CD.

Sub-Component C: Introduce modern planning principles to municipal development (KRA 1.3)

Activity C.1: Improve urban planning in select pilot municipalities

Overview. GAP2 is supporting 10 pilot municipalities in reorganizing their urban planning departments by establishment of a planning division or equivalent, in addition to building the capacity of staff within the departments for urban planning. To do this, GAP2 is providing technical assistance and training to the increase the scope of staff expertise in accordance with the provisions of relevant new legislation, increasing the efficiency of municipal urban development management in the light of the ongoing legal reforms, and providing relevant material assistance of hardware and software for the departments. As a

result, GAP2 pilot municipalities now have reorganized municipal urban departments with separate urban planning divisions, a professional GIS administrator on staff, new or updated urban planning documentation, and a newly created digital database of urban planning documents. Procurement of necessary hardware and software is currently ongoing and will be completed on schedule. Once completed, this activity will phase out after GAP2 ends.

Spatial/urban planning and zoning manual and training materials. GAP2 intends to develop a spatial/urban planning manual for professional staff of municipal urban planning departments. This manual would help staff better understand the principles of modern urban planning, explain the role and tasks of urban planning departments in the process of creating different spatial plans, and standardize urban planning practices across the country.

This manual, together with other materials for this activity developed by GAP2, will be handed over to Municipal Urban Permit Center (UPC) advisory boards whose purpose is to improve spatial planning practices at the municipal level; entity agencies for geodesy and spatial planning as responsible governmental supervisory bodies in the area of spatial planning; entity and cantonal ministries on urban planning, construction, and ecology as regulatory authorities; and faculties and institutes for architecture and urban planning as relevant educational institutions who could use these materials to modify their curriculum.

Additionally, the spatial/urban planning manual will be presented by its author (a local short-term expert) at the GAP2 regional closeout conferences in September. Staff from all municipalities will receive copies and will be informed about its contents and the reasons/benefits to use it.

Activity C.2: Support implementation of youth strategies in select pilot municipalities

Overview. In all 20 municipalities in which GAP2 is supporting the implementation of youth strategies (Bihać, Fojnica, Jablanica, Mrkonjić Grad, Trebinje, Bugojno, Čelić, Foča, Gradačac, Gradiška, Nevesinje, Srbac, Teslić, Gračanica, Ilijaš, Kladanj, Kostajnica, Ljubinje, Vareš, and Žepče), municipal working groups for youth have been established consisting of 12–25 youth representatives of mixed social, ethnic, gender, professional, and geographic origin to represent the diverse youth population of their communities. GAP2 has provided training for working group members on youth action plan development, strategic planning, youth participation in local decision-making processes, project cycle management, and implementation of youth strategies. By the end of the project, more than 200 youth will be equipped to independently apply for grants and update and/or implement youth strategies in the future.

As one of the leading local NGOs actively involved in the development of civic society and involvement of youth in all levels of society, we approached CSPC to gauge their interest in continuing to work with the established youth groups and provide assistance when possible in implementation of the existing youth strategies. Their continued involvement in this activity also makes sense, as two of their staff—Dragana Grbić Hasibović and Aida Musa—are serving as short-term youth and advocacy advisors for GAP2 on this activity.

Available funding will dictate the extent to which CSPC can takeover and continue with the active involvement and monitoring of the implementation of youth strategies in selected municipalities as GAP2 has done. CSPC will use their vast experience in grant applications to attract grant funds that can be dedicated to this activity. Although Ms Grbić Hasibović and Ms. Musa will be available to GAP2 working groups for some off-site advice and guidance, they will not be able to support full implementation of the activities without additional funding. If funding is made available, CSPC will continue to conduct regular advisory, site visits, and trainings on the implementation of the existing municipal youth strategies, leveraging their already established contacts with youth working groups.

Training materials. A number of training materials have been developed for this activity, including materials on youth activism and volunteerism, youth budgeting, youth involvement in decision and policy making processes, establishment of youth councils, youth policy action plan development, and youth advocacy plan development. These materials will be provided to the youth working groups in our partner municipalities; the municipal associations for their online libraries; and to CSPC, who as described above, will continue to support municipalities in this area.

Activity C.3: Support implementation of state Law on Gender Equality in select pilot municipalities

Overview. GAP2 is supporting the implementation of the state Law on Gender Equality (LGE) in 20 pilot municipalities (Bihać, Fojnica, Jablanica, Mrkonjić Grad, Trebinje, Bugojno, Vogošća, Goražde, Foča, Gradačac, Gradiška, Nevesinje, Srbac, Teslić, Gračanica, Ilijaš, Kladanj, Kostajnica, Ljubinje, and Vareš). Each of these municipalities has formed gender working groups that mainly consist of representatives from municipal departments, municipal assembly/council Gender Equality Commissions, municipal centers for social care, health care centers, police departments, and NGOs. These working groups have developed and are implementing gender action plans that outline concrete steps needed to fulfill all of the law's requirements at the local level.

Entity-level Gender Centers are actively involved in joint activities with the gender working groups. Both Centers have appointed their members of those working groups with all necessary information pertaining to laws on gender and supplementing regulations. The training material was delivered to the working groups. Gender action plans and advocacy plans will be sent to the Gender Centers and CSPC in order to continue the activities on supporting the municipal gender working groups and implementation of the State Law on Gender Equality. As noted under C.2 above, the extent to which CSPC can continue to support this activity following GAP2's end will depend on their ability to secure grant funding from other sources.

Training materials. A number of training materials have been developed for this activity, including materials on gender advocacy plan development and gender-sensitive budgeting. These materials will be provided to the gender working groups in our partner municipalities; the municipal associations for their online libraries; and to CSPC, who as described above, with additional funding, will continue to support municipalities in this area. The materials will also be delivered to the entity-level Gender Centers to enable active monitoring of the gender working groups' activities in selected municipalities.

Sub-Component D: Increase the capacity of municipalities to administer capital improvement projects (KRA 1.4)

Activity D.1: Improve municipal capital improvement planning

Overview. GAP2 worked to assist its partner municipalities in developing a multi-year capital improvement plan based on international best practices, and supported the ongoing updating of these plans to ensure sustainability. The GAP2 Capital Projects Fund Program is meant to provide broad assistance to the community and can be used to facilitate rapid completion of priorities developed by citizens' groups in conjunction with the municipal government. The Capital improvement Planning (CIP) methodology is adopted and regularly used for selection and financing of capital improvement projects in 60 partner municipalities. GAP2 also used peer mentoring as an effective way to transfer knowledge and skills between municipalities in the process of adoption of the CIP methodology in its partner municipalities. This approach also fosters better relationships and communication between municipalities.

GAP2 capital project co-financing and training in CIP methodology is being phased out as the project comes to close. The 60 GAP2 partner municipalities that utilized CIP methodology have adopted and are regularly updating their CIP plans, proving their sustainability. To ensure municipalities continue to have access to information about the GAP2 CIP methodology, GAP2 plans to transfer the CIP manual to the municipal associations. This is described more in the paragraph that follows.

CIP/CDPC manual. The CIP/CDPC manual has already been distributed to all GAP2 partner municipalities. GAP2 also plans to transfer the manual and relevant training material to the municipal associations, so that the manual and materials can be readily available to non-GAP2 partner municipalities as well. Although municipal association staff do not have the capacity to provide training on CIP methodology, GAP2 will provide them with an introductory training so that they better understand the benefits of the CIP methodology and will be encouraged to foster peer mentoring between GAP2 CIP municipalities and non-GAP2 municipalities that are interested in introducing/utilizing this methodology.

As noted above with other activities, there will be a presentation on CIP methodology to all municipalities at the regional closeout conferences in September. The presentation will be given by one of the CIP municipalities so that municipalities will hear directly from one of their peers about its benefits, what it takes to introduce it, and who can help them once GAP2 ends.

Policy Interventions

Over the last 4.5 years, GAP2 has witnessed significant improvement in the capacity of both municipal associations to identify policy priorities, liaise with constituents to develop a platform, form effective working groups to draft legislation, and work with the entity government to introduce legislation into Parliamentary procedure. Although ongoing capacity building is necessary, especially given their limited resources, GAP2 believes the municipal associations do have a sense of ownership regarding reform processes and improved communication with higher levels of government.

While once involved heavily in the process of helping the municipal associations set their policy agendas, GAP2 has been able to minimize its role in the last year and a half, as the associations themselves are better able to lead the process. As noted in the introduction to this exit strategy, in late 2011, the FBiH association organized a two-day policy planning session, attended by all municipal association committees and other interested municipal officials, which resulted in the development of a policy action plan. GAP2 was present at the event, but only provided highly targeted policy expertise.

The prioritization of the draft FBiH Law on Forests is another example of the association and its members identifying a key issue for them and working aggressively on adoption of new legislation. While GAP2 advisors are assisting in the effort, the association and its members have really leveraged their keen interest and understanding of the issue to lead the process.

In the RS, the association has started work on the new Law on Financing of LSG despite resistance from the RS MOF, which has refused to participate in the working group tasked to draft the law. However, the RS municipal association and its constituents feel strongly that the distribution of public revenues is a priority issue that needs to be addressed, so they have completed a draft of the law with only focused assistance from GAP2. This again demonstrates the ability and readiness of the RS association to articulate goals, develop solutions, and advocate for such solutions before higher levels of government.

Furthermore, the associations now require a lot less hand holding when participating in working groups, like the ongoing one dedicated to FBiH revenue allocations. In this case, the FBiH association working group is able to thoughtfully articulate its requests and suggestions, backing its position with data and analysis, resulting in better collaboration with higher levels of government. GAP2 is involved in supporting the association, however, GAP2 involvement at this stage is more limited to providing light guidance and reassurance to the association staff regarding their activities, rather than actively preparing materials that the association uses as their own (which was needed several years ago). The association is also taking stronger steps to engage all of their municipalities and involving the relevant committee in preparation for working group meetings, ensuring they have the full support of their members for the position they are taking in the discussion.

CMDA support to the associations will hopefully continue to build their capacity following the end of GAP2. However, it will likely be necessary for donors to continue to support the municipal associations as they have minimal resources and an expanding role they can play in strengthening the voice of municipalities and furthering decentralization reform efforts.

The following provides a detailed description of the current status of each GAP2 policy activity as well as an explanation of how the activity will phase out or continue on after GAP2 ends.

Subcomponent A: Strengthen inter-governmental communication and the capacity of municipalities to collectively advocate (KRA 2.1)

Activity A.1: Support adoption and implementation of Code on Inter-Governmental Relations

Overview. GAP2 has been working with each municipal association to draft and get approved (i.e. signed by the respective entity government) an official Code /Agreement on Inter-Governmental Relations which would establish a clear division of responsibilities and competencies regarding necessary legislative and administrative changes affecting LSG and provide for clearer communication and cooperation between municipalities and higher levels of government.

Despite some delays, GAP2 is optimistic the RS Government and municipal association will sign the Code in the coming months (Fall 2012). Unfortunately, delays in the FBiH have been further compounded by the recent breakdown of the coalition government, and GAP2 is unsure whether the Code will be formally signed before the project's end. However, recent working group discussions indicate both the FBiH Government and municipal association are committed to its approval.

The Code is a starting point that lays the foundation for enhanced communication and cooperation between LSG and higher levels of government. Although GAP2 is ending and will no longer be able to serve as an intermediary between the associations and entity governments, there is much work that needs to continue to be done in order to build on this foundation. A number of annexes will need to be developed and negotiated that cover specific topics such as relations with higher levels government, fiscal policy, and municipal resources. To help the associations conceptualize next steps following the Codes' approvals, GAP2 will work with them to develop draft action plans for implementation of the Codes.

Action plan for implementation of the Codes. Although formal approval of the Code in each entity will be a great success for GAP2, it is just the first step in the process of improving formal communication and collaboration between the levels of government. Following approval of the FBiH codes, the association and entity government must develop and negotiate specific Code annexes. This process could take years. In the RS, the Code does not specifically require the development of annexes. However, following signing of the Code in the RS, a coordination body will be established, and they will determine on an as needed basis whether specific annexes should be developed. Fortunately, there appears to be commitment from all parties that the Code, inclusive of any annexes, are a worthwhile endeavor, so GAP2 is optimistic that things will continue to progress following the project's closure. To facilitate the process, GAP2 will help each municipal association develop a draft action plan for implementation which outlines the general next steps in the process. If time permits, this may also include helping the FBiH association in the negotiation process for one of its required annexes. The financial annex is likely the best candidate for this exercise, considering the current work of both municipal associations on relevant laws that regulate financing of LSG in both entities.

In the coming weeks, GAP2 will discuss with CDMA the role, if any, they can play in supporting the municipal associations in the annex development process. Given CDMA funds financial experts within both associations, they may be able to support development of the financial annex. The Code annex development is an area where donors could continue to provide support to the municipal associations and entity governments in the future.

Activity A.2: Foster sustainability of GAP2 activities through development and implementation of an exit strategy

Overview. This document details the status of all GAP2 activities as the project comes to a close and describes the extent to which the project believes each of the activities is sustainable. As noted throughout this document, GAP2 has created a variety of useful tools including manuals and training materials that will be passed on to local organizations (municipal associations, partner municipalities, government

agencies, NGOs, etc. so that they may continue to be accessible to GAP2 partner and non-partner municipalities after GAP2 ends.

Activity A.3: Cooperate with Sida-funded CDMA project to improve municipal associations' ability to advocate for reform

Overview. The Sida-funded CDMA project, which continues beyond GAP2's end date, seeks to further strengthen and institutionalize the entity associations, enhancing their capacity to act as legitimate, effective, and sustainable institutions. In Year 4, CDMA and GAP2 signed an MOU which addressed areas where the two projects had overlapping or complementary activities and defined the division of roles and responsibilities based on each project's respective work plans. In Year 5, GAP2 has continued to work with CDMA on an ongoing basis to implement the MOU and effectively transfer relevant activities to the municipal associations as described in detail in this exit strategy.

Activity A.4: Foster opportunities for mayors to discuss common municipal interests

Overview. Since its inception, GAP and subsequently, GAP2, have been working (on and off) to support a venue for all BiH mayors—regardless of entity affiliation—to collaborate on topics of mutual interest. During phase I and the beginning of phase II, GAP worked to support the establishment of a joint coordination body encompassing both entity level Associations of Cities and Municipalities. However, due to political pressures, the efforts have never come to fruition. On several occasions, GAP2 tried to revive the issue, with limited success. Due to the general political situation in BiH and increasing political polarization, the coordination body has yet to succeed. Therefore, in its final year and a half, GAP2 has gauged mayoral interest in participating in ad hoc meetings to discuss issues of common concern and has supported the municipal associations to coordinate one meeting to date, which was held in June 2012. Representatives from 28 municipalities, including 25 mayors, attended the event which focused on electronic document processing and concessions.

Although the meeting was a success, it is unclear whether future meetings will be organized without pressure from an outside source like GAP2. If mayors deem it important and useful to discuss a particular topic within and/or across entities, they will likely meet one-on-one as they often do and may even ask the municipal associations to organize something (or perhaps even organize something themselves).

Sub-Component B: Improve inter-municipal communication (KRA 2.2)

Activity B.1: Support implementation of Law on Vital Records and Law on Electronic Documents

Overview. GAP2 has worked to support development and adoption of two laws in the FBiH critical to establishing a legislative framework enabling electronic exchange of vital records and other official municipal documents between local governments. (Similar legislation is already in place in the RS.) The FBiH Law on Vital Records was formally adopted in December 2011, and the FBiH Law on Electronic Documents will soon be forwarded to Parliament as a bill for adoption (the draft law was approved in February 2012 and was subject to public hearing in May 2012.)

Now that the legal framework for electronic document processing is almost in place, GAP2 engaged a short-term local legal advisor to assist with the development of a user-friendly brochure that will help municipalities and other relevant parties to better understand the legal and administrative processes/procedures behind electronic document exchange. The brochure will contain the two relevant laws (Law on Vital Records and Law on Electronic Documents), commentary on the legislation, as well

as a model for internal procedures and rulebooks. The necessary bylaws for both pieces of legislation have been drafted and will also be included in the brochure. This brochure should facilitate implementation of the legislation and make electronic document processing a reality in Bosnia in the near future. Although much of the brochure has been developed, it will not be finalized and distributed until the Law on Electronic Documents has been officially adopted.

Electronic data processing in municipalities. GAP2 has been working with the state-level Agency for Identification Documents, Registry and Data Exchange of BiH (IDDEEA, formerly CIPS) that will oversee the electronic data exchange between all levels of government once the legislation is fully adopted. As noted above, GAP2 has been developing a brochure to help municipalities understand the data exchange process, including its governing legislation. Given the Law on Electronic Documents has yet to be adopted (and may not be before GAP2 ends), GAP2 plans to provide this brochure to IDDEEA for distribution to the municipalities once the legislation is in place.

GAP2 municipalities have the IT infrastructure in place to enable electronic document and data sharing. However, many non-GAP2 municipalities may need to procure IT hardware and/or software to enable full data exchange. These municipalities may face difficulties with funding or the procurement process. Support with procurement is outside of the mandate of IDDEEA, so this is an area where continued donor support may be useful.

Subcomponent C: Conduct policy initiatives to operationalize the Local Self-Governance Development Strategy (KRA 2.3)

Activity C.1: Support implementation of the Law on Principles of Local Self-Governance

Overview. In its efforts to make the FBiH Law on the Principles of Local Self-Governance operational, GAP2 has worked closely with the FBiH municipal association to draft relevant laws, promote the laws' entrance in Parliamentary procedure, and subsequently lobby for their adoption. These laws include the following:

- ***FBiH Law on Concessions.*** In May 2012, the FBiH House of Representatives (HOR) adopted the proposed Law on Concessions that governs the exploitation of natural resources and the distribution of resulting benefits to different levels of government, including municipalities. The law describes to the economic use of natural resources, goods in general use, or other property, public works, and public service, and applies to the awarding of concessions for commercial activities and services and works on public roads, ports, airports, railways, water use and public water resources, utilities, maintenance, protection of water facilities or river bed, hydropower plants, drinking, medicinal, thermal, and thermo mineral water, irrigation systems, power plants, mineral resources, groundwater and geothermal energy, construction land, hunting, fishing waters, pipelines and terminals for storage and transportation. The law also allows for mayors and relevant municipal employees to be a part of the relevant committee if the concession project is located in their municipality. The law provides a more efficient legal framework for concessions and should increase the transparency of concession processes and facilitate economic development. GAP2 anticipates the law will be adopted by the House of Peoples (HOP) before the end of the project.
- ***FBiH Law on Forests.*** A legal framework governing asset management is critical for the effective and efficient use of local government resources. One such asset that is particularly relevant for BiH municipalities is forest land. Consequently, through the municipal association, FBiH municipalities have worked on legislation to clarify municipal authorities and responsibilities vis-à-vis higher levels of government regarding management and financial benefit from forest land. In 2011, GAP2 policy

advisors continued to meet with various interest groups, advocating for the draft text of the law and fostering political will for the law to be passed. The draft law was passed by the Parliament's HOR and was then sent to the HOP. The HOP concluded that the law should be sent to the cantons for a 15-day review period, after which it will be put to a vote at a subsequent HOP session. While there have been some delays collecting the cantons' written opinions, 7 positive responses have now been received, which is sufficient for the law to continue through parliamentary procedure. Therefore, the law should be at the agenda on one of the next sessions of the HOP.

- ***FBiH Law on Employees in Local Self Government (LSG).*** GAP2 policy advisors were also actively involved in working with the association on the Law on Employees in LSG. This law will regulate the legal employment status of employees in local self-government units based on the principles governing civil service rights and will address employees' career development, promotion, training, and continuing education and professional training. Meetings were held throughout the second half of 2011 and beginning of 2012, with the purpose of finalizing the text and preparing it for Parliamentary procedure. Major review and consultations are complete, and experts from the European Commission delegation have given positive feedback on the legislation. The law has been finalized and sent to the FBiH Government for approval prior to being placed on the Parliamentary agenda as a draft. Given the current political situation in the FBiH and the fact that this legislation is still in the initial stages of parliamentary procedure, it is unlikely it will be adopted before GAP2 ends. Assuming it is not adopted by the end of the project, the law's working group, comprised of representatives from OSCE, the Civil Service Agency, FBiH Ministry of Justice, and FBiH municipal association will continue to channel it through parliamentary procedure, hopefully to adoption.
- ***FBiH Law on Cadastre and Law on Real Rights.*** The FBiH Law on Cadastre regulates the establishment and maintenance of a new land registry (that replaces the existing one dating back to the period of Austro-Hungarian rule); measurements of land, buildings, and other objects; and other issues about real estate that are in the interest of individuals and legal entities including municipal authorities. Previous legislation regarding the land registry has been spotty and uncoordinated, and this new law seeks to clarify and/or eliminate many of the issues that currently hamper the existence of an accurate and efficient land registry. The proposed Law on Cadastre was submitted to the FBiH House of Representatives in March 2010, where it has been stalled for over two years. GAP2 has continued to lobby for this law, and it has recently become a topic of discussion again within the Parliament.

After being shelved for some time by the former FBiH government, interest in the draft Law on Real Rights has also been renewed. This legislation will define more specifically the matter of ownership on real estate and personal property as well as all crucial issues associated with ownership. It will make clear what is considered municipal property and consequently, what municipalities have the right to manage. In the past, GAP2 worked intensively on this legislation. Although there have been some delays, it is great that the legislation is now moving forward again.

In 2012, the FBiH Parliament made a decision to adopt the Law on Cadastre and Law on Real Rights as a package with Amendments to the Law on Land Registry (which was not sponsored by GAP2). As with the proposed Law on Cadastre, the proposed Amendments to the Law on Land Registry were submitted to the House of Representatives in March 2010. The proposed Law on Real Rights was submitted to the House of Representatives in June 2012, and the next step will be to place these three laws on the session agenda for formal adoption. However, it is unclear when this will happen.

If the package of laws is not adopted by the end of GAP2, the FBiH municipal association and entity government will continue to negotiate the legislation's passage. At a recent session, the FBiH Government stated its support of the legislation, so it is unlikely there will be issues with its adoption.

Status summary of GAP2-supported legislation still in progress. The policy team is working to develop a status summary document that explains in detail the purpose/relevance of GAP2-sponsored legislation, noted above, that has yet to be adopted, and outlines where the legislation is in parliamentary procedure. The document will also identify current obstacles that may delay the process, recommendations for how to address those obstacles, as well as an overview of next steps for implementing the laws. This document should help the donors to determine what continued support they may provide to the municipal association and relevant working groups to see the laws adopted.

As part of its technical closeout with counterparts, GAP2 will work with the municipal associations and relevant working groups to outline next steps regarding adoption and implementation of the legislation, including guidance on how to address any envisioned obstacles. This will ensure all parties have a vision and plan for the immediate period following GAP2's closeout.

Activity C.2: Address key policy issues that impede modern urban planning

Overview. This policy activity complements GAP2's work under local interventions activity C.1 "Improve urban planning in select municipalities." GAP2 engaged short-term local spatial and urban planning experts to analyze the key policy and practical challenges that limit effective and efficient spatial and urban planning. The result was a report entitled "Urban planning in BiH: A contemporary analysis of the challenges and path to progress", which was submitted to the JMC on June 25. The report underscores the fact that reforming spatial/urban planning in BiH will be a complex endeavor due to the myriad of institutions involved, the existing legal framework, and other identified problems. The report also contains recommendations on how to improve the current situation and enable modern urban planning in BiH and make it compatible with EU standards. If accepted, the next step will be to present the report and its recommendations to the municipal associations so that it can inform their future policy reform agendas.

GAP2 has addressed those challenges/recommendations that are within its scope and can be accomplished in the project's timeframe. However, the report notes that the fundamental challenges to spatial/urban planning in BiH are very complex and systemic and should be addressed in a comprehensive and lengthy way. Hopefully the report's recommendations will inform future donor work in this area.

Activity C.3: Address key policy issues that impede efficient municipal management of communal service provision

Overview. This policy activity complements GAP2 local interventions activity A.2: "Improve municipal management of communal services in select municipalities." The policy and local interventions teams conducted an in-depth analysis in the project's 72 partner municipalities to identify policy issues and practical problems municipalities face in delivery of communal services as well as to assess municipal authority and competencies in this area. The policy analysis initially focused on the primary legal framework that regulates the area of communal services and was then expanded to some other areas of law (constitutional law, local self-governance law) which also significantly affect municipal authority for communal service provision. The analysis report explained that overall, none of the municipalities or citizens surveyed identified a lack of municipal authority to manage communal services as a problem to be addressed. Therefore, GAP2 concluded that existing problems with communal service provision are not caused by insufficient or inadequate authority provided to municipalities by the relevant laws. Rather,

the assessment found there is a need for municipalities, working within the existing legal framework, to improve their capacity to organize service delivery and control service providers. Based on the analysis, the GAP2 policy team decided not to tackle broad legislative changes related to municipal management of communal services. Thus, this activity is being phased out when GAP2 ends. However, in the future, there is an opportunity for the FBiH government and/or donors to address complex practical and policy issues within the actual municipal service providers.

Activity C.4: Support drafting of RS Law on Financing of Local Governments

Overview. With support from GAP1, the RS Budget System Law was amended in 2006 and introduced fiscal equalization for revenue allocation. It thus established a predictable revenue stream for municipalities based on objective criteria, ensuring they were less dependent on the changing whims of higher levels of government. Now that six years have passed since revenue allocation reforms were initiated, stakeholders are looking to make adjustments to their model to further address issues in the systems that have become evident over time.

Additionally, a new Property Tax Law went into effect as of January 1, 2012, representing a new revenue stream for all levels of government. As a result, in 2011, RS municipalities began requesting that the association analyze revenue allocation and propose changes to the current revenue allocation model, as well as to integrate revenues that are currently not addressed adequately by the existing legislation. In response to the requests of the constituents, the RS municipal association placed the drafting and adoption of a new Law on Financing as a top priority within its 2011-2015 strategic plan.

Unlike in the FBiH (described in the section below), the RS MOF is unwilling to cooperate in the drafting of the new law. Undeterred, the municipal association appointed a working group comprised of representatives of local governments, to begin the process of analysis and drafting of a new/ revised law.

To date, the working group has met twice. GAP2 has supported drafting of new legislation and has lead discussions on the pros and cons of keeping the revenue allocation as is versus proposing more radical changes in allocation. As a result, the working group agreed to maintain the existing allocation model as preferred by the MOF, and GAP2 will be revising the draft law accordingly. In May, GAP2's RS fiscal and policy adviser produced an analysis of the current indirect taxes revenue allocation model, effects of horizontal equalization, and effects of the allocation of grants for underdeveloped local governments, and proposed recommendations to ensure transparent and predictable revenue allocation in the future. This analysis and the second draft of the law will be presented at the working group's third meeting in July or August. GAP2 anticipates the draft legislation will be finalized in September.

The RS municipal association is leading this activity and will continue to do so following GAP2 closeout. CDMA's financial advisor is a member of this working group, and she has been involved in all activities with GAP2's RS Fiscal and Policy Advisor. Before project closeout, GAP2 will ensure CDMA understands next steps concerning the legislation. Once the draft legislation is ready, the association will try to garner support for the law, with the hopes they can then more easily negotiate with the RS MOF or get the legislation into parliamentary procedure. Given the challenges ahead for adoption of this legislation, continued donor support may be helpful.

Activity C.5: Support drafting of FBiH Law on Financing

Overview. The FBiH Law on Revenue Allocation, supported under GAP1 and enacted in 2006, introduced fiscal equalization for revenue allocation and set a minimum allocation ratio for the share of personal income tax (PIT) going to the local level. It thus established a predictable revenue stream for

municipalities based on objective criteria, ensuring they were less dependent on the changing whims of higher levels of government. Now that six years have passed since revenue allocation reforms were initiated, stakeholders are looking to make adjustments to their model to further address issues in the systems that have become evident over time.

With this in mind, in collaboration with GAP2, the MOF formed a working group to analyze the current status of revenue allocation in the FBiH and offer proposals on how to improve upon the existing revenue allocation model and resolve any outstanding issues. The working group, consisting of 22 members representing the entity government, cantons, municipal association, and FBiH Road Directorate, held their first meeting in December 2011, and have met 3 additional times so far in 2012. Depending on how many changes are required to the original text of the law, a new draft law or draft amendments to the existing law will be produced over the summer, and GAP2 expects the working group to agree on the proposed changes at their next meeting in September 2012.

During the meetings held to date, agreement was tentatively reached on several issues:

1. Major overhauling of the law and its underlying principles will not be done at this point, due to the severe fiscal crunch on public budgets and the negative effects any significant changes could have on some budgets. Furthermore, the census is expected to be conducted next year, and its results will require further discussion and changes.
2. The issue of repaying external debt will be dealt with separately, and the MOF debt department has an obligation to set up a working group that will, as a first step, establish an inventory of all public debt. Thus, this issue will be addressed through changes to debt legislation rather than changes to the Law on Revenue Allocation.
3. In the distribution of indirect tax revenue to cantons, a new coefficient will be applied to Posavina Canton to shore up its financial situation, as everyone acknowledged that they should have received a coefficient from the start.
4. In the distribution of indirect tax revenues to municipalities, the municipalities of Sarajevo Canton will be included in full in the system. As well, Sarajevo City will be given a sharing coefficient and will receive its funding directly through the system, but it will not be included with other municipalities, instead having a separate share only for the City. Additionally, within the formula, it is proposed to have minor changes to the development index.
5. Finally, a minimal rate of sharing of revenue from the profit tax will be introduced between cantons and municipalities, with municipalities getting 15 percent of the revenue.

As noted above, the law is in drafting stage, and the draft is expected to be finalized in September. The MOF plans to send it for adoption after local elections are held in early October, using urgent procedure with the hopes the changes enacted in law are effective January 1, 2013, thus coinciding with the beginning of the BiH government's fiscal year.

Following GAP2 closeout, the MOF will remain responsible for leading the working group and is expected to follow the law through the adoption process.

Subcomponent D: Support policy reform for introduction of municipal treasury operations (KRA 2.4)

Activity D.1: Support drafting of treasury implementation guidelines

Overview. A Law on Treasury was imposed by the OHR in 2002; however the deadline for treasury introduction for local governments was deferred numerous times until May 2011. Unfortunately, as noted under local interventions activity B.2 “Prepare select municipalities for introduction of treasury operations,” municipalities in the FBiH have not received coherent instructions or guidelines from higher levels of government or support to assist them in introducing treasury system at the municipal level. As a result, following GAP2’s February 2011 scope of work modification, the project began supporting 10 pilot municipalities to prepare for the introduction of treasury operations.

To support the work of the local interventions team, the GAP2 policy team supported drafting of treasure implementation guidelines within the FBiH. GAP2 collected information from a number of sources, including the FBiH MOF, Brčko District, treasury documentation previously produced by GAP2, current legislation, and municipalities that were ahead on the process of treasury introduction. GAP2 teams then closely cooperated with the FBiH municipal association to produce a set of documents, approved by the MOF, which will assist FBiH local governments in the introduction of treasury operations. As noted under local interventions activity B.2, the FBiH municipal association, with support from CDMA, will continue to provide assistance to municipalities in the process of introducing treasury operations.

Monitoring and Evaluation (M&E)

In addition to serving as a useful internal project management and reporting tool, partner municipalities utilize GAP2 M&E reports for the purposes of promoting their accomplishments among citizens and councilors and comparing their successes with other municipalities.

Currently, the municipal associations have minimal time, funds, and human resources to take on GAP2's M&E activities, but it will be useful for them to be more familiar with our M&E tools and to have access to those tools should at some point in the future they have an opportunity to update and utilize them. Therefore, in the remaining period before the project ends, GAP2 will collaborate with CDMA to provide introductory training to municipal association staff on GAP2's M&E tools, namely the Municipal Capacity Index (MCI) and attitudinal surveys. This training will explain the purpose and benefits of the tools, provide detail on how GAP2 conducted the surveys, and offer recommendations on low-cost ways the associations could carry out variations of GAP2's assessments and surveys in the future. For example, the associations could seek volunteers from universities to conduct surveys and analyze the results or they could collaborate with other local organizations that may be interested in this type of data.